Decomposition of the observed rent increase into supply and demand shocks

To what extent was the recent rent increase was caused by the HMO Overprovision policy (implemented in 2019) and to what extent by the growing student population. We investigated this by a counterfactual analysis, decomposing the market into two isolated scenarios: the case where the policy is not implemented and the case where student population does not grow since the policy was implemented. We call these two cases "no supply shock" and "no demand shock" respectively. To investigate "no supply shock" we assumed that yearly supply increases by 1.5%, since this was an average rate of change in supply over 5 years before the policy implementation. For investigating "no demand shock" we assumed that the student population stayed constant from the policy implementation on.

Hence, we determined that 29% of the rent increase could be attributed to the HMO Overprovision policy, while 71% was linked to the rise in student numbers. In total, the modelled rent per room increase from 2019 to 2023 was found to be 9.84%, from £569 to £625 per month. The decomposition results are demonstrated graphically on Fig. D3 below.

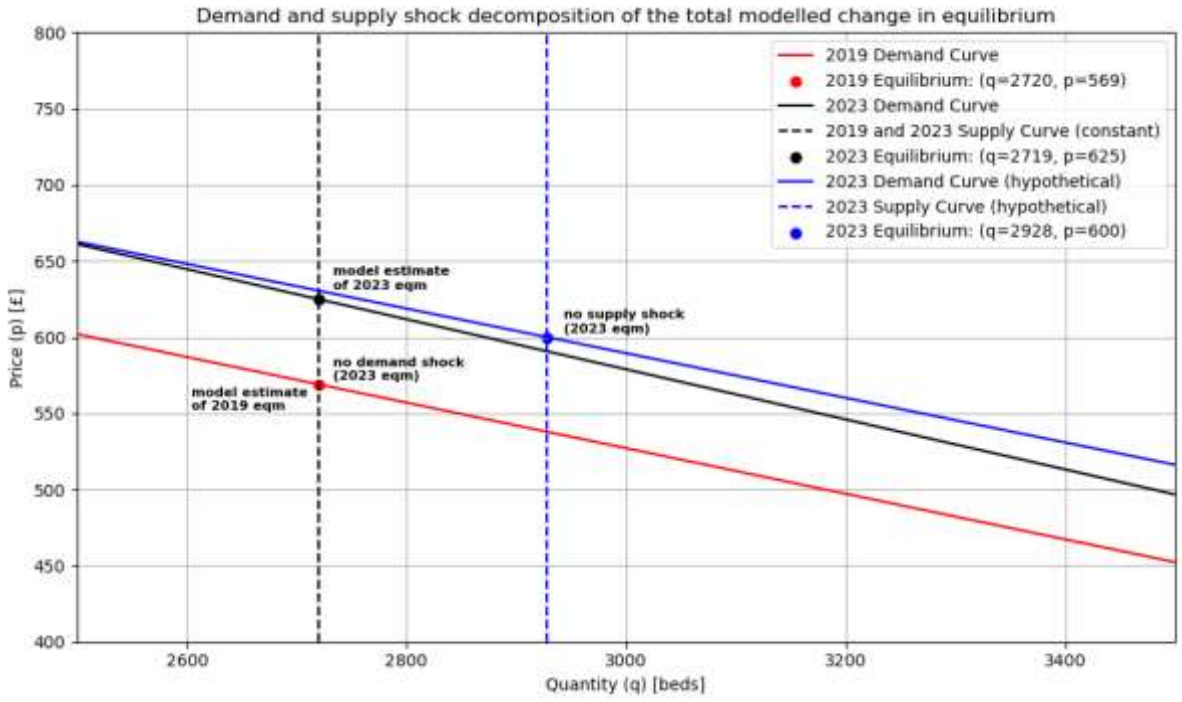

Fig. D3: Decomposition of the total change in the modelled market equilibrium into demand and supply shocks